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Wednesday, May 27, 2015

Market Access

MSM Malaysia Holdings Berhad

“Broadly Inline”

Results Review

- **Actual vs. expectations.** MSM Malaysia Holdings Berhad (MSM) recorded revenue of RM508 million in 1Q15 that was lower by 19% q-o-q but gained by 2% y-o-y. This is due to higher sales recorded by the industries segment despite lower sales from domestic & export.
- **Bottomline.** MSM’s PAT touched RM71 million in 1Q15 compared to RM56 million in 1Q14 and RM75 million in 4Q14 (-5% q-o-q; +26% y-o-y). The higher PAT compared to the same quarter last year was mainly due to higher revenue recorded from the industries sales and lower raw sugar cost. Higher sales for industries combined with lower cost of raw sugar pushed MSM’s PBT and PAT margins to 18% and 14% respectively compared to 14% (PBT margin) and 11% (PAT margin) in 1Q14. MSM’s 1Q15 PAT of RM71 million accounted 27% and 26% of ours and consensus estimates respectively.
- **Dividend.** No dividend was declared during the quarter.
- **Lower raw sugar price.** Of note, price of sugar has dropped by 32% y-o-y to USD11.93/lb in 1Q15 compared to USD17.77/lb in 1Q14 in line with softening in global commodities prices. We foresee the softening of the commodity prices may benefit the group in FY15 as raw sugar that is traded a lower price will significantly contribute to the group earnings.
- **Outlook.** We foresee FY15 to be a good year for MSM due to softening of raw material of sugar. Apart from that, we are positive that MSM will continue to strengthen its position as the largest sugar refinery in Malaysia. Of note, MSM contributed about 64% of market share in 2014, with 81% of its production is for domestic

HOLD (TP: RM5.30)

Current Price (RM)	RM5.40
New Fair Value (RM)	RM5.30
Previous Fair Value (RM)	RM5.30
Previous Recommend.	HOLD
Upside To Fair Value	-1.9%
Dividend Yield (FY15F)	5.0%

Stock Code

Bloomberg	MSM MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Sugar
Shariah Compliance	Yes
Issued Shares (mn)	703.0
Market Cap (RM mn)	3,817.2
YTD Chg In Share Price	9.7%
Beta (x)	0.26
52-week Hi/Lo (RM)	5.50 4.71
6M Average Volume (shrs)	32,740mn
Estimated Free Float	5.5%

Major Shareholders

Felda Group	51.00%
Kop. Permodalan Felda	20.00%
EPF	5.82%

Results Review - MSM Malaysia Holdings Berhad

market with the remaining 19% for the export market. Note that the logistic complex and a vessel terminal in Tanjung Langsat Johor construction is progressing well and expected to be completed by 2016. It comes with additional 1 million per tonnes production per annum (currently: 1.25 million tonnes per annum) that will boost the group earnings in the future.

- **Change to forecast.** We maintain our FY15 and FY16 earnings forecast of RM226 million and RM271 million respectively. MSM's PAT for FY15 and FY16 are expected to grow by 4% and 2% respectively assisted by 1) lower raw sugar material, and 2) encouraging industrial sales.
- **Valuation & recommendation.** We maintain our **HOLD** on the stock with a target price of RM5.30 based on 3-year average PER of 14x and EPS FY15 of 38 cent. Support on the TP would be underpinned by 1) softening in commodity prices; and 2) continuous expansion plan in production capacity.

Table 1: Peers comparison (Calenderised)

Company	YE	Price (RM)	EPS (sen)		P/E (X)		P/BV (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
Parkson*	Jun	2.02	17	19	17	16	1	1	5	NA	2.25	Hold
Amway	Dec	11.00	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	71.56	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	5.40	34	38	14	13	2	2	13	5.1	5.30	Hold
Dutch Lady	Dec	46.80	216	229	22	20	14	16	58	2.4	40.00	Sell
Padini*	Jun	1.40	15	18	13	11	3	3	24	5.0	1.80	Buy
Scientex	July	7.10	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	2.05	11	33	10	6	2	2	10	5.1	1.80	Sell
Aeon Co	Dec	3.17	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	4.05	16	18	19	17	3	3	15	1.0	NA	NA
Average					18	15	5	5				

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	2,301	2,202	2,281	2,407	2,503
Gross profit	374	437	467	448	466
Profit from operations	281	349	335	352	359
Pre-tax Profit	285	359	344	362	369
Net Profit	202	255	257	266	271
EPS (sen)	29	36	37	38	39
P/E (x)	17	14	14	13	13
P/BV (x)	1.9	1.9	1.9	1.7	1.60
GP Margin	16%	20%	20%	19%	19%
PBT Margin	12%	16%	15%	15%	15%
PAT Margin	9%	12%	11%	11%	11%
Dividend (RM)	0.19	0.24	0.24	0.25	0.25
Dividend yield (%)	4.0	4.2	4.8	5.0	5.0
Dividend payout(%)	67	66	65	66	64

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

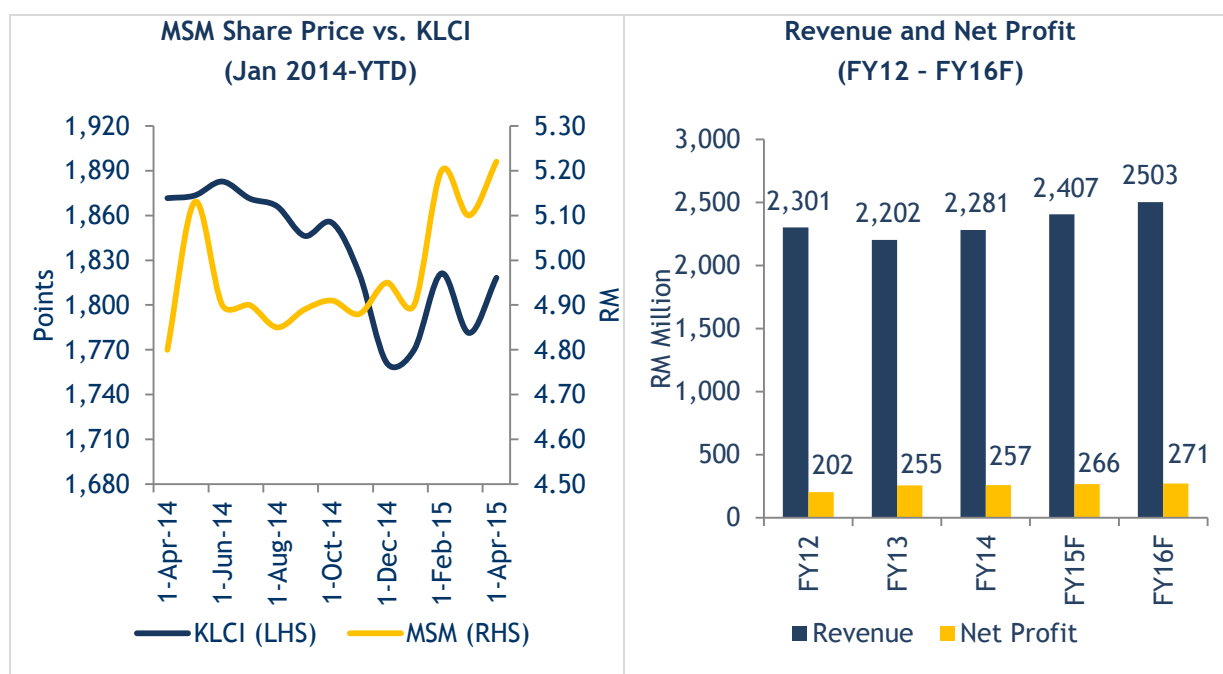
YE: Dec (RM million)	1Q15	1Q14	4Q14	q-o-q	y-o-y	3M15	3M14	y-o-y
Revenue	508	498	628	-19%	2%	508	498	2%
Gross Profit	118	85	145	-18%	39%	118	85	39%
Profit from operations	89	70	104	-15%	26%	89	70	26%
Pre-tax Profit	90	72	105	-14%	25%	90	72	25%
Taxation & zakat	(19)	(16)	(30)	-35%	23%	(19)	(16)	23%
Net Profit	71	56	75	-5%	26%	71	56	26%
EPS (sen)	10	8	11	-5%	26%	10	8	26%
GP Margin	23%	17%	23%			23%	17%	
PBT Margin	18%	14%	17%			18%	14%	
PAT Margin	14%	11%	12%			14%	11%	

Source: Bursa Malaysia, M&A Securities

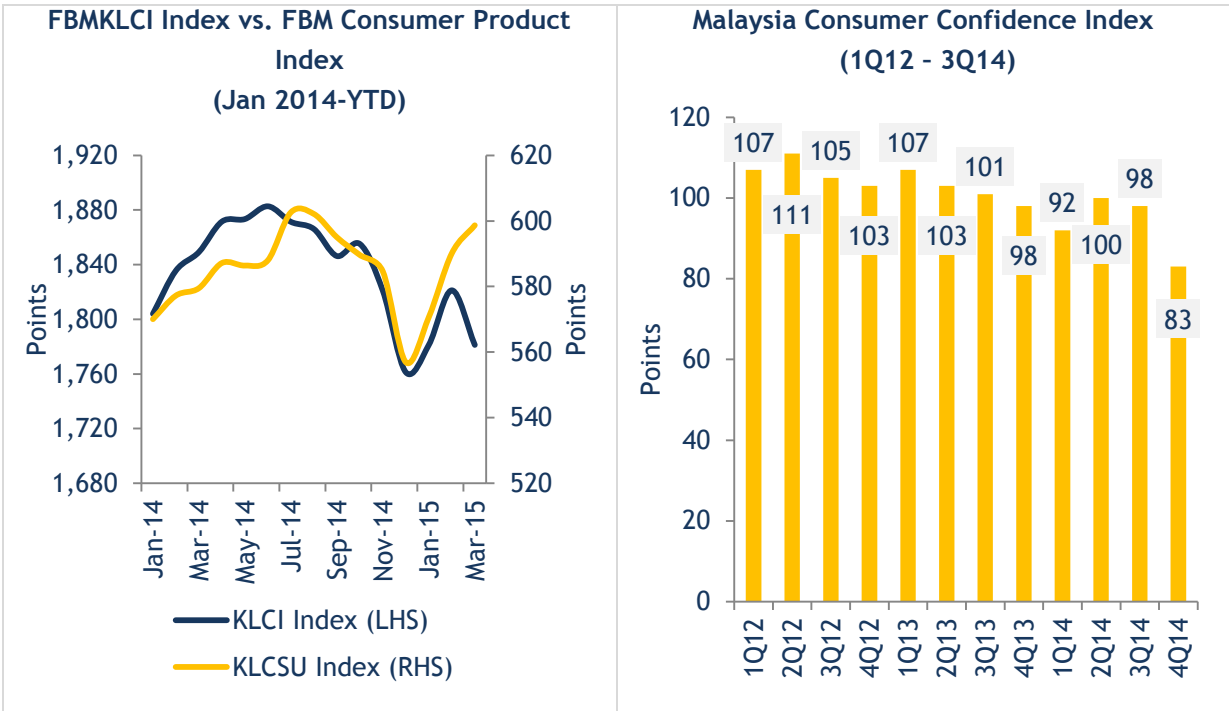
Table 3: Segmental Review

YE: Dec (RM million)	Revenue		
	3M15	3M14	y-o-y
Sugar	521.49	506.65	2.9%
All other segments	-	-	-
Reconciliation	(13.00)	(8.42)	54.4%
Total	508.49	498.23	2.1%

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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